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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Special Services Fees and Classifications ) Docket No. MC96-3

OFFICE OF THE CONSUMER ADVOCATE RESPONSE TO  
MOTION OF NASHUA PHOTO AND MYSTIC COLOR LAB  
TO ENLARGE SCOPE OF PROCEEDING  
(July 25, 1996)

The Office of the Consumer Advocate (OCA) hereby files its response to the Nashua Photo Inc. and Mystic Color Lab Motion (Nashua/Mystic) to Enlarge Scope of Proceeding for Consideration of Classification Modification with Respect to Business Reply Mail, July 15, 1996. OCA supports an investigation of Business Reply Mail (BRM) and the alleged lower costs of processing BRM in bulk. However, it is with regret that the OCA parts company with Nashua/Mystic on the choice of a vehicle for achieving their objectives. OCA does not believe that the instant proceeding, filed almost two months ago, should be subject to possible delay in order to investigate costs of a special service not connected in any way to those included in the Postal Service's Request. Rather, OCA urges Nashua/Mystic to file a proceeding under § 3662

of title 39 to air their concerns. Alternatively, the Commission may elect to structure this proceeding in two phases.<sup>1</sup>

The Nashua/Mystic contention, if actually borne out by the facts, is in harmony with the Commission's policy of recommending discounts that reflect costs avoiding downstream mail processing or delivery costs. For example, in PRC Op. MC95-1, para. 5077, the Commission based its recommendation of a CEM shell classification change, in part, on "the basic validity of the cost savings associated with CEM." OCA's proposed 12-cent discount for CEM was "based on a cost-avoidance figure of 13.4 cents developed by witness Willette." *Id.*, para. 5054. The Commission observed that, "Willette's cost avoidance represents both mail processing and delivery operations." *Id.* (emphasis added). Witness Willette's calculation of a 13.4-cent differential was based, in part, on a delivery cost avoidance of 5.09 cents. *Id.* Witness Thompson, OCA's rate design witness, proposed passing through 90 percent of costs avoided by both mail processing and delivery. *Id.*, para. 5057. In spite of the objections of the Postal Service and several intervenors, the Commission concluded that, "Courtesy Envelope Mail remains worthy

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<sup>1</sup> The first phase would address the Postal Service's proposals; the second would address Nashua/Mystic's proposal. This was the approach followed in the consolidated proceedings of Docket No. MC81-2 and Docket No. R81-1.

of recommendation as a discounted category of First-Class Mail." Id., para. 5082. Significantly, the Commission was persuaded that, "the mail-processing and *delivery cost avoidance* associated with CEM pieces is at least as large as the corresponding figure for any of the Automation subclass categories proposed by the Postal Service." Id. at V-36, n. 21 (emphasis added).

The Commission has stated its approval of similar cost-avoidance proposals sponsored by Niagara Telephone Company (NTC) over the last several omnibus rate and reclassification cases. The Commission remarked favorably in PRC Op. R94-1, para. 5075 (footnote omitted), that: "As the Court said in *MOAA*, and as logic dictates, non-transported mail will save transportation and sorting costs." Indeed, it is evident from the testimony of NTC's witness Peterson in Docket No. R94-1, Tr. 17A/8403-04, that virtually all delivery and transportation costs are avoided by "non-transported mail:"

Non-transported mail was defined as metered mail delivered by the customer to a post office which mail is sorted on premises and placed by the receiving post office into an on-premises post box for pick-up by the addressee.

. . . .

[T]o the best of my knowledge, information, and belief, numerous . . . post offices operate in a similar manner to the post office in Niagara, including the post office in Niagara, WI. Each post office has a local mail slot in which local telephone, gas, electric and

other companies insert monthly metered bills which bills are sorted on premises and placed into on premises post boxes for customer pick up. Because this mail is not transported by the USPS and therefore incurs no transportation costs nor carrier costs, and because this class of mail is not cancelled by the USPS, the rate charged for this service should be less than the standard first class rate.

Witness Peterson was commended again in Docket No. MC95-1 for his renewed proposal for a "local mail" subclass within First Class: "The local mail proposal, which Niagara has advanced in three Commission proceedings, is a classification concept worthy of serious consideration." PRC Op. MC95-1, para. 5087. The Commission indicated that if "concrete estimates of mail-processing and any other costs actually avoided by 'local only' mail" could be developed, and if implementation were feasible, it might be amenable to recommending discounts for local First-Class mail. Id., para. 5089.

The Commission has long been convinced that average First-Class delivery costs are unsuitable for devising rates for mail delivered almost entirely through post office box or firm holdout service. This misgiving was expressed in the Commission's evaluation of the Postal Service's BRM cost development in PRC Op. R87-1, para. 6143:

[I]t is illogical to find that it costs on average 3.6 cents to deliver First-Class Mail of which approximately 50 to 60 percent are delivered outside of a postal facility while it costs 3.9 cents to deliver a

piece of BRM mail of which in excess of 90 percent are delivered to lock boxes or are firm holdouts.

Nashua/Mystic's interest in extending discounted rates to the bulk processing of BRM, another downstream operation, appears to have merit and should be investigated. Unfortunately, expanding the scope of the instant proceeding to entertain Nashua/Mystic's request could lead to protracted discovery disputes with the Postal Service. One would expect that the Postal Service, not anticipating such an enlargement, does not have at hand well-organized BRM cost, revenue, and volume data. Consequently, even if Nashua/Mystic were able to convince the Commission to expand the proceeding, the actual production of data would likely extend over a period of several weeks or longer. Perforce, the resolution of this case could be delayed by weeks, or even months. It does not seem just to postpone resolution of the Postal Service's pending request for so long a time.

In conclusion, OCA supports Nashua/Mystic's pursuit of cost-based BRM rates for the downstream, bulk processing of its BRM, but with the caveat that such a proposal be considered in a separate complaint proceeding under 39 U.S.C. 3662. In the alternative, the Commission may elect to structure this proceeding in two phases.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.

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